

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 SS-20 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-03 PA-04 PRS-01 USIA-15 DRC-01 IO-14 /169 W

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R 270301Z APR 74

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 6812

INFO SECTREASURY

AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

C O N F I D E N T I A L KUALA LUMPUR 1931

E.O. 11652: GDS

TAGS: PFOR, XC, US, MY

SUBJ: SHULTZ CALL ON PRIME MINISTER

1. SUMMARY: DURING SEVENTH ANNUAL MEETING OF ADB IN KUALA LUMPUR, SECRETARY SHULTZ AND PRIME MINISTER RAZAK HAD WIDE RANGING DISCUSSION OF WORLD WIDE INFLATION PROBLEM, US CONTINUING INTEREST IN EAST ASIA, MALAYSIA'S FOREIGN POLICY OBJECTIVES, THE INVESTMENT CLIMATE, AND PROSPECTS FOR THE US ECONOMY. ASSISTANT SECRETARY HENNESSY, PROFESSOR HARBERGER, AND AMBASSADOR ACCOMPANIED SECRETARY SHULTZ. END SUMMARY.

2. INFLATION: AFTER EXCHANGE OF AMENITIES, SECRETARY SHULTZ NOTED WORLD WIDE PROBLEM OF INFLATION WHICH IN US HAD BEEN INCREASING AT RATE OF 10 PERCENT. TWO TO THREE PERCENT RATES
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OF INFLATION OF PRIOR YEARS WILL NOT RETURN

SOON, BUT US IS MAKING STRONG EFFORT TO BRING PRESENT RATE DOWN. PM SAID INFLATION WAS SERIOUS PROBLEM FOR MALAYSIA ALSO, AND THAT HIS GOVERNMENT WAS ATTEMPTING TO DRY UP EXCESSIVE AMOUNT OF MONEY IN CIRCULATION BY ENCOURAGING SAVINGS. GOVERNMENT HAD LAST YEAR UNDERESTIMATED RICE NEEDS, AND THIS YEAR WAS STRONGLY ENCOURAGING PRODUCTION. FLOOR PRICE WAS KEPT LOW, HOWEVER, TO AVOID SUBSIDIES. SECRETARY NOTED THAT INCREASES IN AGRICULTURAL PRODUCTION HAD BROUGHT DECREASES OF FROM 25 TO 50 PERCENT IN THE PRICES OF BASIC COMMODITIES IN US: SOYBEANS, WHEAT, COR, COTTON.

3. US ROLE IN ASIA: IN ADDITION TO CONVEYING PRESIDENT NIXON'S PERSONAL GREETINGS, SECRETARY EXPRESSED PRESIDENT'S CONTINUING INTEREST IN THE US PLAYING AN ACTIVE AND CONSTRUCTIVE ROLE IN ASIAN AFFAIRS. HE NOTED THAT THE US AS THE MAJOR WORLD PRODUCER OF FOODS HAD KEPT ITS MARKETS OPEN, EXCEPT FOR BRIEF PERIOD OF CONTROLS ON EXPANDING EXPORTS OF SOYBEANS, AND THAT THERE WERE NO RESTRICTIONS ON THE FLOW OF CAPITAL TO OR FROM THE US.

4. MALAYSIAN FOREIGN POLICY: THE PM SAID HE WAS WORRIED ABOUT VIETNAM. GOM WOULD LIKE TO SEE THE FIGHTING ENDED SO THAT THE FOUR STATES OF INDOCHINA PLUS BURMA COULD JOIN ASEAN. A NEUTRALIZED SE ASIA HE BELIEVED HELD OUT THE BEST PROSPECTS FOR PEACE AND STABILITY IN THE AREA. MALAYSIA WOULD BE ANNOUNCING NORMALIZATION OF RELATIONS WITH THE PRC WITHIN A MONTH. HE HAD BEEN INVITED TO VISIT CHINA AND WOULD DO SO. EXCHANGE OF DIPLOMATIC REPRESENTATIVES, HOWEVER, WOULD NOT TAKE PLACE FOR ABOUT SIX MONTHS. HE ADMITTED GOM WAS TAKING A RISK WITH 40 PERCENT OF POPULATION CHINESE AND HARD-CORE COMMUNIST TERRORISTS STILL ACTIVE IN THE JUNGLES OF MALAYSIA.

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5. INVESTMENT CLIMATE: SECRETARY SAID STABILITY WAS IMPORTANT FOR INVESTMENT CLIMATE. INVESTORS WANTED TO FEEL CONFIDENT THAT THEIR MONEY WAS SAFE FROM NATIONALIZATION AND THAT A FAIR RETURN COULD BE REALIZED. THE PM SAID MALAYSIA WANTED FOREIGN INVESTMENT AND THAT INVESTOR COULD FEEL CONFIDENT HERE.

6. US ECONOMY: PM SAID THAT HE WAS HEARTENED
BY PRESIDENT NIXON'S STATEMENT ON THE US ECONOMY
WHICH HE HAD READ ON HIS WAY TO THE OFFICE.
SECRETARY SHULTZ SAID THAT OIL EMBARGO HAD HAD
A SHARP IMPACT IN A NUMBER OF AREAS DURING FIRST
QUARTER OF 1974, BUT HAD NOT SLOWED DOWN THE HIGH RATE OF
INVESTMENT. SIGNS WERE GOOD THAT ECONOMIC SITUATION WOULD IMPROVE.
UNDERHILL

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NNN

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